Ceramic Protection CORPORATION

ANNUAL REPORT

2003

Leadership in Design, Manufacture and Distribution of Ballistic and Wear Management Protection Solutions

Winner of The American Ceramic Society Technical Achievement Award

CONTENTS

MISSION STATEMENT

At **Ceramic Protection Corporation** it is our promise to conduct business with the highest professional and ethical standards. We provide a work environment which encourages the direct involvement of a committed team focused on:

- Providing quality and value to our customers
- Developing world class integrated solutions to meet customer needs
- Fostering personal growth and development for our employees
- Creating value for our shareholders

Our business is a source of pride for us, and as a team of dedicated professionals we shall continue to serve our customers as a leader in the design, manufacture and distribution of cost-effective, highly efficient ballistic and wear management protection solutions.

CORPORATE HIGHLIGHTS

Financial Summary

	FY 2003	FY 2002	Increase
Sales ($000s)	$17,011	$4,781	256%
Gross Profit ($000s)	$4,655	$1,353	244%
Net Income ($000s)	$2,576	$(173)	N/A
EBITDA ($000s)	$3,086	$328	841%
Earnings Per Share	$0.38	$(0.03)	N/A
Diluted Earnings Per Share	$0.36	$(0.03)	N/A

Share Price

Calendar	High	Low	Close
2000	$1.02	$0.30	$0.55
2001	$0.85	$0.16	$0.22
2002	$0.70	$0.21	$0.60
2003	$3.55	$0.50	$3.45
2004 (to March 12)	$7.85	$3.15	$7.50

CHAIRMAN'S MESSAGE

In May 1996 Ceramic Protection Corporation (CPC) initiated an Initial Public Offering as a first step in constructing and developing a unique ceramic manufacturing facility in Canada. Since that time, CPC has encountered many challenges in producing and marketing its products, but throughout this process we have striven to achieve the highest standards for quality manufacturing and for the development of innovative specialty products for armour systems and industrial applications.

Starting from a modest client base and a limited ceramic product line in ballistic armour and industrial products, CPC has grown dramatically and is now recognized globally for its quality manufactured and distributed products. As a certified ISO 9001:2000 manufacturer, CPC has continued to maintain high manufacturing standards for its diversified specialty products. We were proud to have been recognized with the prestigious Corporate Technical Achievement Award in April 2001 received from the American Ceramic Society. This was an affirmation that CPC was, indeed, moving with distinction and credibility into the highly competitive international arena of ballistic materials manufacturing. We believe that we have only just begun to realize the benefits from that hard work and dedication to achieving a focussed business plan.

In the past year, CPC has worked to realize record results through sales of manufactured and distributed products and, needless to say, we are proud to have created such outstanding results for our shareholders. These achievements are in keeping with strategic plans implemented over the past several years. Growth is to be funded through internal profitability. It will be driven by our success in export markets. We will achieve success by working closely with end-users in ballistic and industrial applications to develop, test and manufacture materials that "do the job at a competitive price".

As CPC enters a new phase, we have every reason to expect continued success in sales, earnings growth and return on equity. As CPC has expanded its product offerings and its client base over the past years, we have focused on the development of a strong, committed management team. With a no-nonsense management style directed to continuous improvement in our manufacturing, and with a maturing sales and marketing team which has achieved recognition by steadily expanding our list of customers, the Board of Directors is confident of continued growth and development.

On behalf of the Board of Directors, I would like to extend our sincere thanks to our clients and employees who have contributed to our successes in the recent past. It is our mission to deliver value to our shareholders while acknowledging their belief in, and support of, our Corporation.

Larry Moeller

Larry G. Moeller
Chairman of the Board

CORPORATE PROFILE

Ceramic Protection Corporation manufactures and distributes products for ballistic armour systems and wear management solutions.

The former product lines include both personnel and vehicular armour systems for military, police and para-military applications. Each system is designed to offer protection against specific ballistic threat levels. This is achieved through the combination of the Corporation's proprietary alumina oxide ceramic body armour plates and pressed tiles with composite and polyethylene materials to form a completed armour component or system. Examples of these include our high-performance CAP Armour System, offered to police forces across North America, insert ceramic plates for military and police applications and ballistic panels designed specifically for use in police and military vehicles.

The Corporation maintains an ongoing research and development program, which has the active support of the National Research Council–IRAP Program. With the Corporation's capabilities for in-house ballistic testing and new materials development for both ceramic and composite materials, new specialty solutions for users are under development to meet the needs of a wide variety of applications. This integrated capability for ceramics manufacturing and subsequent systems applications development has placed the Corporation in a strong competitive position during a time of exceptional international demand for ballistic ceramic materials.

In addition the Corporation has, through established strategic alliances and distribution agreements, expanded the suite of products offered to customers requiring ballistic solutions with non-ceramic materials. These distributed products are a growing segment of the international marketplace. The Corporation recognized the advantages of introducing these products to an increasing number of customers. This approach has served to rapidly expand the Corporation's product reach and has enhanced its international client base.

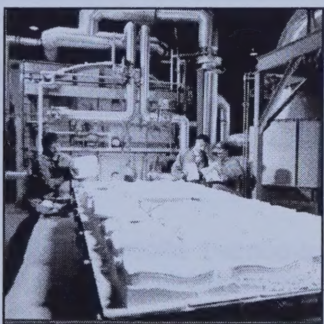
Wear management solutions include high-performance alumina, zirconia and alumina-bonded silicon carbide materials designed to improve performance of parts and materials used in high temperature, corrosive or abrasive environments. Specializing in custom designed liners and inserts for piping, cones, cyclones and choke valves, the Corporation has the ability to respond to client needs for specialty applications in severe process environments.

Ceramic Protection Corporation 46,000 sq. ft. head office and manufacturing facility

PRODUCTS OF THE CORPORATION

Ceramic Armour

The Corporation produces a number of different slip-cast ceramic materials for personnel armour plates. The Corporation also manufactures pressed alumina tiles used in vehicular armour panels. In past years, alumina products were primarily sold as bare ceramic products. Currently, a significant portion of CPC's armour production is sold as completed armour products where the ceramic is bonded with composite materials. In most other instances in the marketplace, armour systems integrators source bare ceramic and then have it completed at another facility by another party. CPC's integrated production process enables it to offer its customers optimized ceramic/composite combinations for the required levels of protection. This competitive advantage ensures high quality at a reasonable cost.

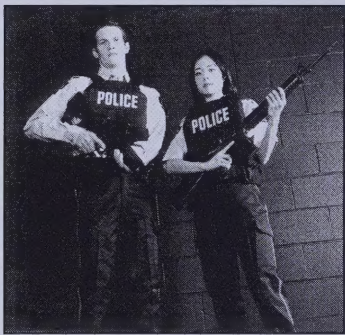


Custom shaped plates designed to meet our customers' requirements

In-house testing facility

The Corporation produces bonded, or completed personnel armour plates in a wide range of shapes, sizes and configurations for use against a variety of ballistic threats. The Corporation routinely tests these products against specific ballistic threats in its in-house testing range. Each manufactured plate is rigorously quality inspected and, in many cases, independently certified for use with vests manufactured by customers. As a specialty supplier, CPC is able to work closely with customers to ensure that their needs for ballistic performance are met. Each plate is adapted to fit the needs of various vest systems in the marketplace. The Corporation manufactures a wide variety of such completed plates, for specific end-users throughout the world and has introduced the Ceramic Armour on Patrol (CAP) system for police use. This adaptability has allowed the Corporation to become a preferred supplier of customers throughout the world.

The Corporation, in conjunction with its international alliance partners, has also developed and manufactured ceramic-based vehicular armour panels for police and military applications. These panels provide a solution for intermediate and high-level ballistic threats.



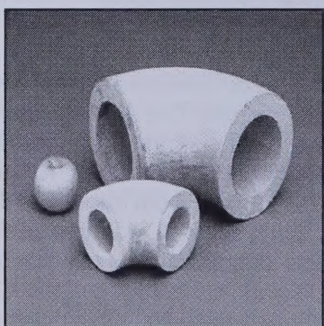
Ceramic Armour on Patrol (CAP) System for police use

Distributed Armour Products

The Corporation has negotiated agreements with offshore manufacturers for the distribution of certain non-ceramic and other products not presently manufactured in Canada. These distributed products are of value to the Corporation as they provide new but related products for sale to our existing customer base.

Wear Management Products

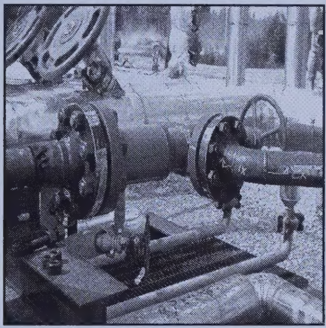
CPC manufactures specialty ceramics made of alumina-bonded silicon carbide and a variety of alumina formulations employed in a variety of wear management products. These range from cyclone liners, to valves and elbows.



ABSC elbow liners

Victaulic elbow

The Corporation, in conjunction with an established valve manufacturer and an engineering firm servicing the oil and gas sector, has developed a ceramic-lined choke valve for Steam Assisted Gravity Drainage (SAGD) systems. These have been successfully tested in the field and are now being manufactured for an oil company to be used in heavy oil production. This type of completed product provides CPC with direct access to end-users and with enhanced margins in a new product line. This product line may have longer term implications for the development of our wear management division.



Choke valve

Weldable liner for easy install

The Corporation manufactures ceramic lined elbows for the mining sector and provides design and manufacturing services related to completed cyclone systems used in mining and oilfield applications in Canada, the United States and overseas.

The Corporation's marketing strategy for wear management products is to expand specialty products offered to a growing customer base. The Corporation continues to improve product mix through research, development and testing to meet the needs of customers.

EXPECTATIONS FOR GROWTH

Overview

Growing companies achieve success due to the focus and discipline of many committed individuals. The current success of CPC is also attributed to a number of characteristics of the Corporation:

1. A unique market presence and integrated production

   CPC is one of the few manufacturers of ballistic armour products which has the capability to manufacture high-density ballistic ceramics and then bond these ceramics with composite materials to produce fully completed personnel and vehicular armour at one manufacturing location. During a time when global demand for ballistic ceramics has exceeded supply, CPC's ceramic production capability assures the Corporation of adequate supply and high quality materials. The same principle applies for wear management products that incorporate abrasion and wear-resistant ceramics within valves, sleeves and cyclones.

2. Product recognition

   CPC is a recognized award-winning manufacturer and distributor of quality armour and wear management specialty products. With a growing market share, and a client list which has expanded in the past several years, the Corporation has delivered excellent products to its customers.

3. Adaptability and product diversification

   CPC has responded actively, and aggressively, to the needs of the marketplace. In the case of the strong demand for armour products that has occurred in the past several quarters, the Corporation entered into supply-distribution agreements with international alliance partners and manufacturers. This allowed CPC to rapidly access new materials for direct distribution sales without capital expansion costs. At the same time the Corporation has developed new products for wear management system, such as the new Steam Assisted Gravity Drainage (SAGD) ceramic lined choke valves as announced in February 2004.

4. Product research and development, testing and certification

   With the active support of major research entities in Canada, such as the National Research Council, the Corporation has undertaken new product development in concert with original equipment and industrial manufacturers. With in-house capabilities for ballistic testing and with an active program to develop, test and manufacture new formulations and types of advanced ceramics, the Corporation has a unique capability in Canada to achieve manufacturing excellence in new products.

5. Competitive advantages

   The Corporation presents real value in the marketplace. This is due to its extensive and growing product mix, a cost-competitive manufacturing environment and high-quality advanced manufacturing processes. The Corporation has invested in the development and application of

new technologies in advanced ceramics, composites and completed products. With access to relatively cheap energy supplies used in our manufacturing processes and a well educated workforce in the highly entrepreneurial environment of Alberta, the Corporation has aggressively pursued its growth strategies.

6. New sources of revenue

In the past year, the Corporation has continued its work with an automotive manufacturer in Detroit, Michigan, for the development of ballistic door panels for police vehicles. Should these efforts be successful, significant future sales are anticipated.

Outlook and Strategy for Growth

Ceramic Protection Corporation has achieved international recognition as a unique Canadian manufacturing entity which has positioned itself in personnel and vehicular armour markets while expanding applications for industrial ceramics in wear management situations. The Corporation has worked to consistently improve products and product offerings in an attempt to diversify its capabilities to a broad range of clients.

Product introductions such as the Ceramic Armour on Patrol (CAP) system help to achieve sales in the more stable and diverse police markets throughout North America, while the Corporation meets the expanded current demands of the military. New product introductions for police vehicular armour also may contribute to product diversification while potentially offering a significant advantage of stable police market access for long periods of time.

Our work in developing new custom products in wear management systems has also resulted in enhanced interest from the oil and gas and mining sectors.

The Corporation continues to demonstrate a commitment to excellence while recognizing that our achievements are a result of the hard work and strong commitment of our employees and directors. The management team continues to demonstrate its ability to overcome difficult technical and managerial challenges. The Corporation is pleased with the success of these efforts to date while continuing our expansion into sustainable markets.

REVIEW OF OPERATIONS

The fiscal year ended October 31, 2003 showed significant growth, with sales of $17,011,000, compared with $4,781,000 for the 2002 fiscal year. This growth represents a year-to-year increase of 256%. The Corporation's net income for the year was $2,576,000. This significant improvement in financial performance was achieved through increased sales in personnel armour systems, both manufactured and distributed, and through improvements in sales margins for many of these products.

Significant items achieved in 2003 included the following points:

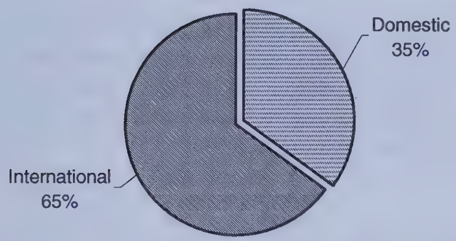
1. Revenues in armour products increased from $3,288,000 to $15,651,000
2. Exports increased from $3,107,000 to $16,109,000
3. Sales of $8,757,000 achieved with distributed products
4. Several new personnel armour, vehicular armour and wear management products successfully introduced or in development
5. Net income of $2,576,000 achieved

The Corporation enhanced its international profile in sales of armour systems. Sales of personnel armour systems in 2003 increased from $3,288,000 to $15,651,000, an increase of 376% over 2002. Particular success was achieved through distribution of non-ceramic plate products. The Corporation also introduced the CAP police plate system. The CAP system, distributed through national distribution networks, has attracted interest from police services throughout North America. The Corporation is pursuing this product line opportunity in a concerted attempt to diversify and grow sales to the broad police market.

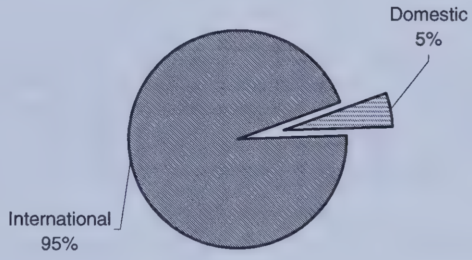
The Corporation continued its development, with the support of the National Research Council of Canada IRAP program, of ballistic panels to be used in police vehicles. This advanced ballistic system, with the significant competitive advantage of being designed for installation by the original vehicle manufacturer on the assembly line, has received encouraging interest from police agencies across North America. At the time of writing, the Corporation is pursuing engineering and technical evaluations with the manufacturer to merge and adapt existing automotive manufacturing processes and procedures to allow for efficient assembly line installation of the ballistic panels.

Sales of wear management products were $1,365,000 for the year, a 9% decline from the $1,500,000 attained in 2002. This erosion resulted from reduced sales to customers in the mining sector. In a continuing effort to diversify product offerings, during the year the Corporation worked with a valve manufacturer to introduce and test choke valve systems for steam assisted gravity drainage (SAGD) applications in heavy oil extraction operations. Very positive test results have been obtained from in-field, high-pressure evaluations of our system. Subsequent to year end the Corporation achieved a successful sale of approximately $500,000 for 28 of these ceramic-lined choke valves. This represents the first successful introduction by the Corporation of these valves for operations in the growing heavy oil industry, representing a significant diversification of the Corporation's wear management product mix. In this new market for CPC, operators are seeking to minimize costs and maximize production through the use of advanced technologies.

Sales 2002
Revenue $4.8 million



Sales 2003
Revenue $17.0 million

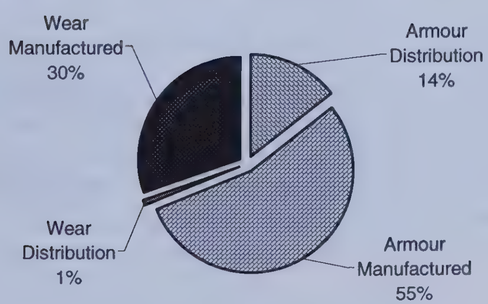


The Corporation's achievements in the highly competitive global export marketplace are noteworthy. Export sales rose from approximately 65% of gross sales in 2002 to 95% in 2003. This resulted from the Corporation's sales and marketing efforts to selected major customers and end-users in the United States, Mexico and Europe. Recent success in the United States market has been a major contributor to the attainment of enhanced sales for 2003 and will remain a significant factor in 2004 at a minimum.

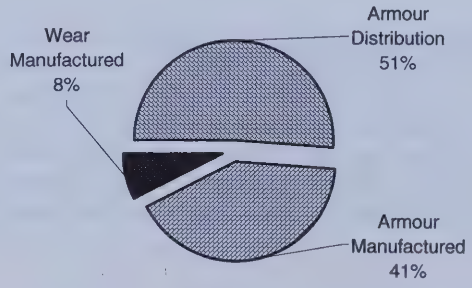
Amour systems sales were $15,651,000 for the year, 44% of which was represented by manufactured products. Significantly, 56% of armour sales resulted from distributed armour products, up from 21% in 2002. These results indicate the success of the corporate strategy to become an international armour manufacturer, integrator and distributor.

Armour sales rose from 69% of total sales in 2002 to 92% in 2003. It is anticipated that strong sales in armour systems will be maintained through 2004.

Sales 2002
Revenue $4.8 million



Sales 2003
Revenue $17.0 million



MANAGEMENT DISCUSSION AND ANALYSIS

Management's discussion and analysis of the financial condition and results of operations ("MD&A") should be read in conjunction with the Corporation's fiscal 2003 audited financial statements which are prepared in accordance with Canadian generally accepted accounting principles. The Corporation's fiscal year ends on October 31. All references to a fiscal year mean the twelve month period commencing on November 1 and ending on October 31 of the following year.

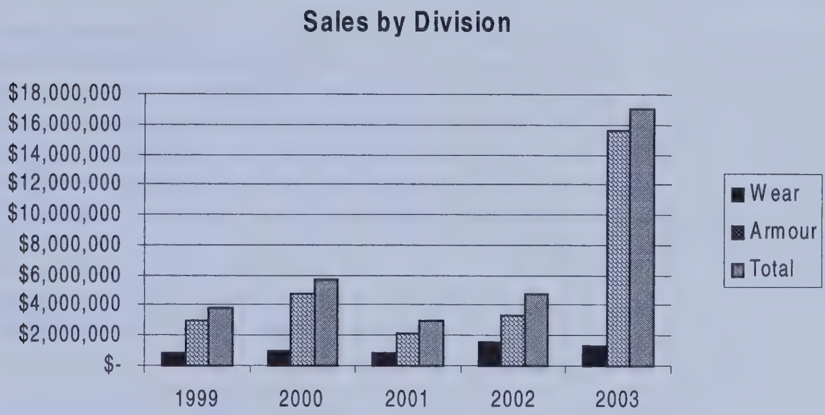
The Corporation

Ceramic Protection Corporation of Calgary, Alberta, Canada is an ISO 9001:2000 certified manufacturer and distributor of industrial wear management and ballistic protection systems in the national, and international, marketplace. Since its inception, the Corporation has become a leading supplier of products for ballistic protection in the personnel armour sector and has been developing vehicular armour solutions for both police and military applications. The Corporation's wear-resistant materials are used in mining, oil and gas production, oil sands and heavy oil processing and other industrial applications throughout North America. The Corporation is listed on the TSX Venture Exchange as "CEP."

Summarized Results	2003	2002	2001
Sales	$17,011,457	$4,780,564	$3,014,021
Gross Margin	27%	28%	16%
Gross Profit	$4,655,496	$1,352,798	$468,413
Net Income (Loss)	$2,575,885	$(172,522)	$(1,012,276)
EBITDA	$3,085,853	$327,629	$(470,501)
Earnings Per Share	$0.378	$(0.025)	$(0.149)

Discussion of Statement of Income

Revenues for fiscal 2003 rose to $17,011,000 as compared to $4,781,000 for the same period last year. There was a significant increase in sales revenues, attributed largely to enhanced international demand for armour products. Armour sales amounted to $15,651,000 with wear management sales reaching $1,365,000. Armour distribution sales represented 56% of total sales with manufactured sales accounting for the balance. During the year, 95% of total sales were exported from Canada.



The gross margin achieved for the 2003 fiscal year was 27%, down marginally from 28% achieved in 2002. Materials manufactured by the Corporation tend to attract higher margins than do products that are distributed.

In 2003, General and Administrative expenses increased to $1,344,000 from $984,000 in the prior year, a change of 37%. The overall increase resulted from significantly higher insurance costs in 2003, (up 162%) and to a lesser degree, personnel, marketing and legal costs. Employee and management bonuses of $150,000 were paid in the year as prescribed in the Corporation's incentive plan. Sales and marketing expenditures increased by $76,526 due to enhanced efforts to reach an expanded group of international customers.

Depreciation expense on capital assets in fiscal 2003 was $381,000 as compared to $383,000 in 2002. The Corporation recorded a foreign exchange loss of $160,000 in the 2003 fiscal year. In the same period in 2002 a gain of $32,000 was recorded. The rapid rise in the Canadian dollar versus the US dollar caused this loss. During the period when the largest increase in the value of the Canadian dollar occurred, the Corporation was exporting high volumes of ballistic materials to the USA and other countries where sales were made in US currency.

Financing costs for the long-term debt in 2003 was $96,000 as compared to $99,000 in 2002. Interest expense on the operating line was $33,000 as compared to $18,000 in 2002 due to increased business levels.

In 2003 the Corporation recorded $75,000 for Research and Development expenditures as compared with $74,000 in 2002. The Corporation is continuously focusing on enhancing ceramic materials used in ballistic and wear management applications. This internal research effort is directed to applied testing in our in-house laboratories and in the field in conjunction with end-users.

The Corporation has tax losses available at October 31, 2003 of approximately $306,000 to shelter future taxable income.

Liquidity and Capital Resources

As a result of achieving net income totalling $2,576,000, the Corporation has significantly strengthened its balance sheet during the year. At year end 2003 the Corporation had $1,501,000 in cash as opposed to $179,000 in borrowed funds at year end 2002. Receivables increased by 51% to $2,069,000 from $1,368,000 in 2002. This increase is a result of increased sales.

Inventory at year end 2003 was $400,000 down marginally from the previous year. The Corporation continued to successfully practice just-in-time receipt of bulk materials, utilizing local supplier warehousing facilities while minimizing finished goods on hand.

The Corporation paid down its long term debt during the year by $186,000. At the 2003 year end, the long term debt balance was $1,497,000. Subsequent to year end, a new loan and banking agreement with more favourable terms has been signed by the Corporation.

Share capital increased by $33,000 as a result of exercised stock options

Capital expenditures amounted to $102,000 in 2003 as compared to $40,000 in 2002, a change of 155%. Most of these costs were directed to upgrading production equipment and plant facilities.

Stock-Based Compensation

The Corporation's current stock option plan is designed to assist in attracting and retaining the best employees and to better align employee interests with those of the shareholders. The Corporation has had in place a stock option plan authorizing the granting of options to directors, officers and eligible employees of the Corporation to purchase Common Shares. During the year, 144,000 stock options for common shares were granted. These options will expire if not exercised within a period not exceeding five years commencing from the date of issuance.

Business Environment and Risks

The Corporation continues to maintain a base of customers while competing for contracts in a competitive technical marketplace. Marketing efforts to increase the Corporation's visibility and sales include the use of internal sales personnel and external agents as well as offering training courses in ballistic protection technology. The Corporation is responding to market demand for improved materials and alliance partners are being used to bring products to market quickly with minimal capital investment. Much of the Corporation's revenue is derived from international contracts which are bid in US currency. The Corporation must react quickly to market demands by constantly adjusting production levels to meet supply requirements. World economic, military, commodity pricing and political factors affect the number and size of contracts available for bid in the defense and wear-management sectors.

Risk Management

The Corporation is subject to credit risk on its accounts receivable. Credit risks are minimized by dealing with reputable customers known to the Corporation, through the insuring of export receivables and through the structuring of payments to the Corporation in ways which diminish risks of collection.
Currency risks exist through export sales primarily to the US. The Corporation attempts to purchase materials used for exports with US dollars and uses its foreign currency receivables and cash accounts to pay foreign currency payables.

Technology

Technological innovation by ceramics manufacturers and armour systems integrators have served to improve the effectiveness of ballistic systems deployed as personnel armour and vehicular armour products. Although a different marketplace, this factor also applies to the wear management sector, where new applications for abrasion-resistant ceramics are continuously been tested. The Corporation's ability to deliver specialized, and continuously improving, technologies for both ballistic and wear management applications is critical to our continued success. The Corporation has continuously built upon its experience in manufacturing of advanced materials and has teamed with customers and research institutions such as the National Research Council of Canada and the Alberta Research Council to provide solutions unique to the needs of the Corporation's customers. Our ability to design and manufacture specialized armour and wear management systems has kept us on the leading edge of these advanced technologies.

The continued development of new, more advanced lightweight ceramic materials, combined with advanced aramid and adhesive solutions, has allowed for the introduction of better products which provide enhanced ballistic protection. Similarly, the development of a new ceramic-lined choke valve for heavy oil (SAGD) production has allowed the Corporation to work with major oil producers in Canada to evaluate and apply these advanced solutions. Some of our technologies are at, or near, the commercial deployment stage, however, the success of any future technological endeavour is never certain.

Foreign Sales

The Corporation has been working hard to export its materials and expertise to customers and national entities around the world. However, with such opportunities comes the risks of dealing with business and political systems that are much different than those of North America. The Corporation has senior managers and has hired employees and agents who have experience working in the international arena. International export insurance may be obtained for specific orders from the Export Development Corporation of Canada.

Pricing and Availability of Raw Materials

Access to raw materials used in the manufacture of technical ceramics, such as alumina oxide powder, is based upon worldwide market conditions. Similarly, aramid fibers used in ballistic solutions are subject to availabilities and cycles of demand. Prices for these materials are established in a global market in which the factors of supply and demand are subject to a wide array of economic and political influences.

The Corporation partially manages the risk of commodity prices by purchasing raw materials specifically for orders negotiated. Materials are sourced in amounts which allow the Corporation to achieve competitive pricing.

Forward Looking Statements

This document may contain forward looking statements including expectations of future sales, cash flow and earnings. These statements are based on current expectations that involve a number of risks and uncertainties that could cause actual results to differ from those anticipated. These risks include, but are not limited to, uncertainties associated with the defense industry, commodity prices, exchange rate fluctuations and risks resulting from the potential delays or changes related to government orders

in the defense sector. Other risks may include factors such as commodity price changes that may affect the demand for mining and oil and gas products. These may, in turn, affect the demand for industrial ceramics used in liners and related abrasion-resistant applications.

Corporate Governance

The Board is responsible for supervising the management of the business and affairs of the Corporation. The Board fulfills its obligations and executes its responsibilities by attendance at regularly scheduled meetings and through its committees. At the Board meetings, directors receive and review reports prepared by management on the business dealings and financial performance of the Corporation and review corporate plans, strategic plans, management issues and business opportunities. The Board examines the integrity of internal controls, management information and systems to distinguish the principal risks to the Corporation's business.

The Board of Directors is currently composed of four directors, three of whom are not related to the Corporation. The Board believes that the unrelated directors do not have any interest, business or other relationship that could be perceived to interfere with their ability to act in the best interests of the Corporation.

The Board expects the management of the Corporation to propose, and after Board approval, to execute the Corporation's strategic direction, long-term plans, goals and targets. The Board also expects management to be accountable for the Corporation's financial and competitive performance. It expects management to provide the Board with timely, complete and accurate information on the business operations of the Corporation. The Board expects that management manage the Corporation's resources in a manner consistent with enhancing the value of the Corporation within the law and with due consideration for ethics and corporate social responsibility.

Conclusion

With the continued strengthening of the ballistic protection marketplace and with the forthcoming manufactured and distributed product offerings that the Corporation is bringing to market, it is reasonable to expect additional future opportunities for growth. In addition, new products and continued demand for wear resistant products provide the Corporation with long-term and stable marketing development opportunities. Certain market factors, such as commodity prices and demand for ballistic products, remain strong. The Corporation recognizes that our achievements to date are in large part due to the committed efforts of our employees, managers and Directors. These combining efforts are gratefully acknowledged as we work as a team to build long-term value for our shareholders.

Respectfully submitted,

Ron R. Wallace, Ph.D.
Chief Executive Officer
Ceramic Protection Corporation

March 15, 2004

AUDITOR'S REPORT

To the Shareholders of Ceramic Protection Corporation

We have audited the balance sheets of **Ceramic Protection Corporation** as at October 31, 2003 and 2002 and the statements of income (loss) and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta

December 10, 2003

FINANCIAL STATEMENTS

Balance Sheets
As at October 31, 2003 and 2002

	2003 $	2002 $
Assets		
Current assets		
Cash	1,501,391	-
Accounts receivable	2,068,935	1,368,069
Inventory (note 3)	400,621	426,284
Prepaid expenses, supplies and deposits	38,379	24,849
	4,009,326	1,819,202
Property, plant and equipment (note 4)	3,329,340	3,608,438
Deferred product development costs	105,084	105,084
	7,443,750	5,532,724
Liabilities		
Current liabilities		
Bank indebtedness (note 5)	-	179,152
Accounts payable and accrued liabilities	764,670	1,098,292
Current portion of long-term debt (note 6)	223,199	223,199
	987,869	1,500,643
Long-term debt (note 6)	1,273,889	1,459,422
	2,261,758	2,960,065
Shareholders' Equity		
Share capital (note 7)	5,432,462	5,399,014
Deficit	(250,470)	(2,826,355)
	5,181,992	2,572,659
	7,443,750	5,532,724

Commitments (note 9)

Approved by the Board of Directors

Larry Moeller, Director

Ron Wallace, Director

Statements of Income (Loss) and Deficit
For the years ended October 31, 2003 and 2002

	2003 $	2002 $
Sales	17,011,457	4,780,564
Cost of sales	12,355,961	3,427,766
	4,655,496	1,352,798
Operating expenses		
General and administrative	1,343,922	984,333
Depreciation	381,186	383,212
Foreign exchange loss (gain)	159,914	(32,246)
Interest on long-term debt	95,685	98,580
Interest on operating line	33,097	18,359
Miscellaneous income	(9,200)	(558)
Research and development	75,007	73,640
	2,079,611	1,525,320
Net income (loss) for the year	2,575,885	(172,522)
Deficit – Beginning of year	(2,826,355)	(2,653,833)
Deficit – End of year	(250,470)	(2,826,355)
Basic earnings (loss) per common share	0.378	(0.025)
Diluted earnings (loss) per common share	0.362	(0.025)

Statements of Cash Flows

For the years ended October 31, 2003 and 2002

	2003 $	2002 $
Cash provided by (used in)		
Operating activities		
Net income (loss)	2,575,885	(172,522)
Item not affecting cash		
Depreciation	381,186	383,212
	2,957,071	210,690
Net change in non-cash working capital items	(1,022,355)	(13,569)
	1,934,716	197,121
Investing activity		
Purchase of capital assets	(102,088)	(39,856)
Financing activities		
Repayment of long-term debt	(185,533)	(180,173)
Net proceeds from issuance of share capital	33,448	-
	(152,085)	(180,173)
Increase (decrease) in cash	1,680,543	(22,908)
Bank indebtedness – Beginning of year	(179,152)	(156,244)
Cash (bank indebtedness) – End of year	1,501,391	(179,152)
Supplemental information		
Cash paid for		
Interest	128,782	116,939
Income taxes	-	-

Notes to Financial Statements
October 31, 2003 and 2002

1) Summary of significant accounting policies

Revenue

For sales contracts with terms less than three months, revenue is recognized upon shipment of goods. Sales contracts extending beyond three months are recognized using the percentage-of-completion method.

Inventories

Raw materials are stated at lower of cost and replacement value. Cost is determined on a first-in, first-out basis.
Work-in-progress and finished goods are stated at the lower of cost and net realizable value, with cost being determined on a moving average basis.

Property, plant and equipment

Property, plant and equipment are recorded at cost and amortized on a straight-line basis over their estimated useful lives as follows:

Building	25 years
Kiln and pattern equipment	10 years
Tile press	20 years
Other equipment	5 years
Technology license	10 years
Kiln furniture	18 months

In the year of acquisition, the company records one-half of the annual depreciation charge.

Research and development expenditures

The company expenses expenditures for research to operations in the year they are incurred. Product development costs, where the criteria for deferral under Canadian generally accepted principles are met, are deferred until such time as commercial production commences. At October 31, 2003, the balance has not been amortized as production has not begun.

Earnings (loss) per common share

Earnings per common share are calculated using the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated using the treasury stock method for determining the dilutive effect of options.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities and revenues and

expenses arising from foreign currency translations are translated at the exchange rate in effect at the date of the transaction. Exchange gain or losses arising from the translation are included in operations.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax bases, using enacted income tax rates. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs.

Stock based compensation plan

The Company has a stock option plan enabling certain officers, directors and employees to purchase common shares at exercise prices equal to the market price on the date the option is granted. No compensation expense is recognized for this plan when the stock options are issued. Any consideration paid to the Company on exercise of stock options is credited to share capital. If stock or stock options are repurchased, the excess of the consideration paid over the carrying amount of the stock or stock options cancelled is charged to retained earnings.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

2) Comparative figures

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

3) Inventory

Inventory consists of:

	2003 $	2002 $
Raw materials	95,344	142,707
Work-in-progress	261,342	162,227
Finished goods	43,935	121,350
	400,621	426,284

4) Property, plant and equipment

Property, plant and equipment consists of the following:

			2003
	Cost $	Accumulated amortization $	Net $
Land	519,480	-	519,480
Building	2,490,750	712,274	1,778,476
Kiln and pattern equipment	1,772,468	1,482,243	290,225
Tile press	982,477	304,889	677,588
Other equipment	764,364	745,770	18,594
Kiln furniture	342,150	297,173	44,977
	6,871,689	3,542,349	3,329,340

			2002
	Cost $	Accumulated amortization $	Net $
Land	519,480	-	519,480
Building	2,482,785	613,263	1,869,522
Kiln and pattern equipment	1,772,468	1,306,110	466,358
Tile press	982,477	258,346	724,131
Other equipment	675,158	658,177	16,981
Technology licence	57,582	52,008	5,574
Kiln furniture	279,651	273,259	6,392
	6,769,601	3,161,163	3,608,438

5) Bank indebtedness

The Company has a bank facility available up to the lesser of $1,750,000 and 75% of accounts receivable.

The bank operating line bears interest at prime plus .75% - 1.25% (2002 – 1%) per annum based on Company's debt to equity ratio, and is secured together with long-term debt (see note 6).

6) Long-term debt

	2003 $	2002 $
Mortgage loan #1, repayable in monthly instalments of principal of $11,920 plus interest at prime plus .75-1.25% on the outstanding balance to September 1, 2011 (October 31, 2003 – 4.70%; October 31, 2002 – 5.63%)	1,123,379	1,266,420
Mortgage loan #2, repayable in monthly instalments of principal of $3,541 plus interest at prime plus 1.5% on the outstanding balance to September 1, 2011 (October 31, 2003 – 4.70%; October 31, 2002 – 5.63%)	336,043	378,535
Other loan	37,666	37,666
	1,497,088	1,682,621
Less: Current portion	(223,199)	(223,199)
	1,273,889	1,459,422

Mortgage loans #1 and #2 and the operating line of credit are collateralized by a first fixed charge against the building, assignment of insurance, and a general security agreement.

Principal repayments over the next five years are as follows:

	$
2004	223,199
2005	185,532
2006	185,532
2007	185,532
2008	185,532
Thereafter	531,761
	1,497,088

7) Share capital

a) Authorized

The Company is authorized to issue an unlimited number of common shares.

b) Issued

The Company has issued and has outstanding the following common shares:

	2003		2002	
	Number of shares	Amount $	Number of shares	Amount $
Balance – Beginning of year	6,775,068	5,399,014	6,775,068	5,399,014
Options exercised	74,330	33,448	-	-
Balance – end of year	6,849,398	5,432,462	6,775,068	5,399,014

c) Stock based compensation plans

Pursuant to the terms of a stock option plan established in 1995, options may be granted to certain officers, directors and employees to purchase common shares of the Company. Options are exercisable at one third on anniversary of the grant date with one-third exercisable each year after that. The options expire five years after the grant date.

Section 3870 requires pro forma disclosures of net earnings and earnings per share, as if the fair value based method of accounting for employee stock options had been applied. The disclosures below show the Company's net earnings per share on a pro forma basis using the fair value method, as determined by using the Black-Scholes option pricing model. The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Option pricing also requires estimates that are highly subjective, included expected volatility of the underlying stock. Changes in assumptions can materially affect estimates of fair values. The weighted average fair value of options granted during the year was calculated as follows, using the Black-Scholes option pricing model with the following assumptions: (i) expected dividend yield – 0%; (ii) expected stock price volatility – 100%; (iii) expected life of options – 4 years; and (iv) risk free interest rate – 4.50%.

For the year ending October 31, 2003, 144,000 stock options with a weighted average Black-Scholes fair value of $1.45 were granted to officers, directors and employees and valued.

	$
Year ended October 31, 2003	
Net earnings – as reported	2,575,885
Estimated stock-based compensation costs for the year	69,600
Net earnings – pro forma	2,506,285
Earnings per share – as reported	0.378
Earnings per share – pro forma	0.368

A summary of the Company's stock option plan as of October 31, 2003 and October 31, 2002, and changes during the years ended on those dates is presented below.

	2003		2002	
	Shares	Weighted average exercise price $	Shares	Weighted average exercise price $
Outstanding – Beginning of year	615,000	0.44	549,500	0.45
Exercised	(74,330)	0.45	-	-
Granted	144,000	1.56	101,000	0.40
Cancelled	(37,000)	0.45	(35,500)	0.45
Outstanding – End of year	647,670	0.69	615,000	0.44
Options exercisable – End of year	459,666	0.45	447,000	0.45

At October 31, 2003, there were 402,670 options outstanding with an exercise price of $0.45 and a weighted average remaining contractual life of 1.25 years, 35,000 options outstanding with an exercise price of $0.50 and a weighted average remaining contractual life of 2.72 years, 66,000 options outstanding with an exercise price of $0.35 and remaining contractual life of 3.9 years, and 144,000 options outstanding with an exercise price of $1.56 and a weighted average remaining contractual life of 4.86 years.

d) Earnings per share

The number of shares used in earnings per share calculations is reconciled as follows:

	2003	2002
Weighted average shares outstanding	6,812,233	6,775,068
Diluted effect of stock options	308,932	-
Weighted average diluted shares outstanding	7,121,165	6,775,068
(in dollars)		
Basic earnings per share	0.378	(0.025)
Diluted earnings per share	0.362	(0.025)

8) Income taxes

The Company's provision for income taxes differs from the result that would be obtained by applying the combined Canadian Federal and Provincial statutory income tax rate of 37.16% (2002 – 42.62%) to income before income taxes. This difference results from the following:

	2003 $	2002 $
Computed expected expense (recovery) for income taxes	957,113	(73,529)
Increase resulting from		
Non-deductible expenses	2,144	1,951
Non-recognition (recognition) of tax benefits	(1,190,076)	39,843
Effect of rate changes on tax benefits	230,819	31,735
Income tax expense	-	-

The Company has $1,353,994 (2002 – $3,972,723) of loss carryforwards and tax pools in excess of book value for which no benefit has been recognized in these financial statements as presented below:

	2003 $	2002 $
Tax benefits from		
Tax pools in excess of net book value	389,356	285,010
Loss carryforwards	113,743	1,408,165
Less: Reserve for non-recognition	(503,099)	(1,693,175)
	-	-

The Company's loss carryforward expires as follows:

	$
2008	306,116

9) Commitments

At October 31, 2003, the Company had a letter of guarantee outstanding in the amount of $32,400US for performance related to a future sale to a customer

10) Financial instruments

The Company's financial instruments consist of accounts receivable, bank indebtedness, accounts payable and accrued liabilities, and long-term debt.

a) Credit risk

Approximately 90% of the Company's sales occur outside of Canada. All significant international armour sales are insured.

b) Currency risk

Approximately 90% of the Company's sales occur outside of Canada and these sales are denominated in foreign currencies. The Company also purchases raw materials outside Canada and these purchases are repayable in foreign currencies.

c) Fair value

The carrying value of the Company's financial assets and liabilities approximate their fair value at October 31, 2003.

d) Interest rate risk

The operating line of credit and the mortgage loans bear interest at rates based on the current prime interest rate. A one percent change in interest rates would not have a significant impact on earnings.

11) Segment information

The Company operates one operating segment, that being the design, manufacture and distribution of ceramic products. The final destinations of the Company's sales to its external customers are as follows:

	2003 $	2002 $
Sales		
Canada	902,418	1,685,403
United States	14,039,842	2,632,473
Africa	773,375	127,008
Pacific RIM	751,247	159,248
Other countries	544,575	176,432
Total sales	17,011,457	4,780,564

At October 31, 2003, one customer accounted for 64% of the Company's total sales. In fiscal 2002, one customer accounted for 16% and another customer accounted for 14% of the Company's total sales.

CORPORATE INFORMATION

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Directors	**Larry G. Moeller** Vice President, Finance Edco Financial Holdings Ltd. **Vincent S. Krynski** President Krynski Holdings Ltd. **Ron R. Wallace** Chief Executive Officer Ceramic Protection Corporation **Milt Pahl** President and CEO Native Venture Capital Co. Ltd.
Legal Counsel	**Gowling LaFleur Henderson LLP** Calgary, Alberta
Auditor	**PricewaterhouseCoopers LLP** Calgary, Alberta
Registrar and Transfer Agent	**Valiant Trust Company** Calgary, Alberta
Stock Exchange Listing	**TSX Venture Exchange** Trading Symbol: CEP

NOTES

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